

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

ADDITION OF EVERY DOOR DIRECT MAIL –
RETAIL TO THE PRODUCT LIST

Docket No. MC2012-31

REPLY COMMENTS OF THE UNITED STATES POSTAL SERVICE
(August 6, 2012)

On July 10, 2012, the United States Postal Service (“Postal Service”) filed its “Request to Add Every Door Direct Mail – Retail to the Mail Classification Schedule” (“Request”). In Order No. 1399, the Postal Regulatory Commission (“Commission”) scheduled the deadline for comments from interested parties for July 30, 2012. Comments were filed by David B. Popkin (“Mr. Popkin”), the National Newspaper Association (“NNA”), Valpak Direct Marketing Systems, Inc. and Valpak Dealer’s Association, Inc. (“Valpak”), and the Public Representative (“PR”).¹ Reply comments are due today.

The comments focused primarily on two issues: (1) whether the Postal Service sufficiently described the impact that Every Door Direct Mail - Retail (“EDDM-R”) has had on carrier operations and (2) whether the reported volumes and number of new

¹ Initial Brief of David B. Popkin (July 30, 2012)(“Popkin Comments”); Comments of the National Newspaper Association on the Postal Service’s Request to Add Every Door Direct Mail – Retail to the Mail Classification Schedule (July 30, 2012)(“NNA Comments”); Valpak Direct Marketing Services, Inc. and Valpak Dealers Association, Inc. Initial Comments on Request of the United States Postal Service to Add Every Door Direct Mail — Retail to the Mail Classification Schedule (July 30, 2012)(“Valpak Comments”); Public Representation Comments on the Addition of Every Door Direct Mail – Retail to the Product List (July 30, 2012)(“PR Comments”).

mailers reflect accurate data. The commenters are concerned that volume that the Postal Service reports as from new mailers is simply a diversion from other entities such as mail service providers or newspapers. While the Postal Service understands how the commenters could reasonably draw such conclusions, a better understanding of Postal Service operations and data systems demonstrates that the Postal Service did provide as much information as it could within the confines of its capabilities. Further the Postal Service disagrees with the underlying premise of some of these comments, that EDDM-R is a competitive threat to the viability of other mailers of advertising mail.

The market test has shown that, when the Commission provides the Postal Service with flexibility, the Postal Service can develop products that demonstrate and enhance the value of the mail. In implementing EDDM-R, the Postal Service has relaxed its rules and simplified pricing to make direct mail more user-friendly. In response, over 55,000 mailers have used EDDM-R during FY 2012 to connect to local customers by sending advertising mail to every address within a community.² The Postal Service will focus its reply comments on clarifying those aspects of EDDM-R raised by the commenters, which might have been confusing, and provide a more clear understanding of this product. It will also explain how it complied with the Commission's directive related to EDDM-R's impact on operations to the extent it could, and provide the requested advertising costs. Finally, it will explain why EDDM-R will not cause harm to the marketplace, but instead provide an option for smaller mailers to reach their customer base.

² The quarterly data collection reports are limited to the number of mailers in a particular three-month period, while the 55,000 number reflects a cumulative total for the year. This total likely is understated significantly, because it counts independent franchisees with the same business name as one mailer.

Clarifications on Factual Issues

Mr. Popkin's comments raised several questions about the rules for EDDM-R.³

With respect to the limitation of EDDM-R to flats, the Postal Service believes that flat-shaped pieces provide mailers with an adequate variety of advertising options.

Moreover, saturation mailings of simplified address letter-shaped pieces can be entered at bulk mail entry units (but not at retail), for locations served by rural carriers. With respect to the 200-piece minimum, Mr. Popkin generally is correct. We are maintaining the 200-piece minimum for Standard Mail, except when there are fewer than 200 delivery points in the entire ZIP Code. Mr. Popkin is correct in stating that a mailer has two options with respect to any given carrier route/box section: sending to all residential customers or to all customers. He also is correct that deliveries will be made only to actual customers, rather than to empty residences, or to Post Office boxes that are not in use. Finally, <https://eddm.usps.com/eddm/> provides information such as the numbers of actual deliveries in particular carrier routes and box sections, so that potential customers can prepare EDDM-R mailings.

The Public Representative asks for additional explanation of the MCS language establishing the EDDM-R minimum volume requirement.⁴ When the MCS language states a minimum of "at least all addresses on one carrier route or box section, and 200 pieces", the goal is to establish two separate minimums – not only the regular 200 piece minimum for Standard Mail, but also at least all addresses on one carrier route or box section. The minimum is not additive; if there are more than 200 addresses on one

³Popkin Comments, at 1-2.

⁴PR Comments, at 4-5.

carrier route, then the 200-piece minimum is already satisfied.⁵ If necessary, the MCS language could be restated as “at least all addresses on one carrier route or box section, but not fewer than 200 pieces, unless there are fewer than 200 pieces in the entire ZIP Code, in which case the minimum is all available addresses within the ZIP Code.”

The Public Representative also requests clarification on when the Postal Service will collect data on EDDM-R costs.⁶ The Postal Service agrees that its July 18, 2012 notice of errata was incomplete, because it corrected an error on page 10 of Attachment B to its Request, but failed to correct a similar error on page 3 of Attachment B. Postal Service data systems will begin recording data on the “EDDM-R” marking in Q1 of FY13. In Q4 of FY12, the data systems began recording data on the “EDDM” marking, but not specifically “EDDM-R.” Since the proposed new product is only EDDM-R, the earliest that data systems will provide EDDM-R data is during FY13.

New Customers

In its comments, NNA questions exactly how the Postal Service is asking new customers whether they have previously used the mail.⁷ Valpak alleges that “the Postal Service chose not to ask, and therefore has no idea, whether users of EDDM-R are simply transitioning mail that is currently being sent, albeit not directly by the mailer, but rather through shared mail programs or through mail service providers using the MSP’s permit.”⁸

⁵ The PR appears to be reading “and 200 pieces” in the draft MCS language as “plus 200 pieces,” but that was not the intended meaning.

⁶PR Comments, at 6.

⁷NNA Comments, at 7.

⁸Valpak Comments, at 10.

The Postal Service determines the number of new customers by checking whether the EDDM-R mailer had a mailing permit which it used during the 90 days before its EDDM-R mailing. The Postal Service believed this was the most appropriate way to capture the data at the time, because it was the simplest process, and did not require customer input. The permit approach avoids the types of customer confusion about what constitutes prior mailing raised by NNA, and keeps from complicating the mailing or registration process with additional questions and explanations for customers.⁹

If customers are asked whether they have mailed before, they may incorrectly respond “yes” because of nonadvertising mail, such as invoices or holiday cards. On the other hand, they may not know that they are indirectly mailing through a newspaper’s total market coverage (TMC) program. The Postal Service thinks that its data provide meaningful information about how many customers are new advertising mailers. The Postal Service is investigating whether it can get more information in the future, assuming that EDDM-R is approved as a permanent product.

EDDM-R Price Justification

Contrary to Mr. Popkin’s contentions, the Postal Service did justify why it is proposing to establish a price of \$0.16 for the EDDM-R product, which is higher than the \$0.145 price for similar mail entered at a business mail entry unit (BMEU).¹⁰ The higher EDDM-R price is justified by the customer convenience of allowing retail entry, without a

⁹NNA Comments at 7. Asking about prior mailings for each mailing would make repeat customers answer the question more than once. Asking during the registration process would ask some potential customers who do not follow up with an actual mailing.

¹⁰Popkin Comments, at 2. The Postal Service recognizes that customers participating in the market test are paying \$0.145, which is less than the price they would pay for the permanent EDDM-R product. But, this is not a market-dominant price increase subject to the CPI cap rules, because those rules do not apply to the conversion of a market test to an MCS product.

requirement to pay the permit fee required for EDDM mail entered at a BMEU. BMEU mailings also have higher volumes than EDDM-R mailings, which further justifies a price differential between the two. EDDM-R has offered businesses a means to communicate by mail at low cost within their target marketing areas. EDDM-R reduces complexity and cost by providing an opportunity for businesses to mail without permits or related fees, and with simplified mail entry. This value also justifies a price higher than the one currently charged at the BMEU to enter EDDM mail.¹¹

EDDM-R Volumes Have Not Been Sufficient for the Postal Service to Track Specific Costs for EDDM-R, or its Impact on Carrier Operations

Since EDDM-R was just in a market test phase, its costs were not isolated from those of similar products that currently exist such as Saturation/High Density Flats and Parcels, including EDDM mailings entered at BMEUs. As clarified above, Postal Service data systems will not begin collecting EDDM-R costs until Q1 of FY13. Based on the similarity of these products, the Postal Service believes that the per-unit costs for Standard Mail High Density/Saturation is a reasonable proxy for this new product.¹²

NNA does not specifically oppose the Postal Service's use of a proxy, but states that the use of a Saturation Mail cost proxy is not satisfactory, unless the Commission is willing to expect mailers harmed by the program to also share in the cost of supporting it. NNA further contends that direct cost measurements that incorporate all costs fairly attributable to the program -- whether volume variable or not -- are necessary to avoid adding additional burdens to mailers now facing this new competitive threat.¹³

¹¹Postal Service Request, Attachment B, at 3-4, 7.

¹²Request, at 3.

¹³ NNA Comments, at 11-12.

If multiple saturation mailings, including an EDDM-R mailing, create additional costs, causation is unclear. The EDDM-R mailing should not be assumed to be the cause of any additional costs. Also, overall Saturation mail volume is down in recent years, even including EDDM-R mailings. So, the operational impact should be manageable.

Valpak, NNA, and the PR allege that the Postal Service did not adequately respond to the Commission's request for data on EDDM-R's impact on carrier operations.¹⁴ The Postal Service acknowledges that the Commission did specifically ask the Postal Service to present data, in support of its filing for a permanent product, showing the impact of EDDM-R on carrier operations, in addition to information on advertising or other specific costs related to the proposed new product.

From an operations perspective, a saturation mailing is defined as a sequence set which does not delineate EDDM-R or EDDM-BMEU mailings from other saturation or high-density mailings. Currently, these types of saturation mailings are combined if on the same route, and operations cannot make a distinction between them at the carrier route level.

Additionally, since these are similar products, the Postal Service offered data, such as average casing percentages known for this type of products as a whole, in order to give the Commission some idea of EDDM-R's potential impact. However, with the introduction of a new workload, specifically EDDM-R, additional sequence sets could impact daily carrier operations by increasing the number of bundles on any given day of the week for a specific carrier route. Depending on the type of carrier route, and

¹⁴Valpak Comments, at 6-7; NNA Comments, at 9-10; and PR Comments, at 5-7.

number of sequence sets, additional handling of EDDM-R or other saturation mailings may result in deferrals of one or the other mailing, particularly on foot and park-and-loop type routes, in an effort to manage workload and contain costs. Nevertheless, the impact of EDDM-R on delivery will depend on the level of usage of the new product, similar to other new products requiring additional handling, and the Postal Service cannot anticipate when a mailer will mail EDDM-R along with other types of mailings that will be delivered that day for mailing along with each of their respective volumes.¹⁵

In attempting to meet the Commission's requests, the Postal Service has been looking into methods for obtaining quantitative data on this impact, including field inquiries and visits. But, the need to prepare the current filing before the market test exceeded its \$50 million revenue limit resulted in the current lack of such data. The Postal Service regrets that it cannot delay this filing in order to obtain additional data, because of the statutory limits on market test revenues, and the fact that data are difficult to obtain through special studies, when transactions are dispersed around a large number of Post Offices. EDDM-R mailings are only in the postal system for a short time, during which they receive no automated processing. Thus, the visibility for such mailings is limited, making cost tracking and observation of operational impacts especially difficult.

The only way that the Postal Service data systems will be able to begin to report costs associated with EDDM-R is when the mail is properly marked, and when there is considerable EDDM-R volume separate from other High Density and Saturation flats for reliable costing. Beyond what the Postal Service has previously detailed in the Request, it is unable to provide any more information until more EDDM-R mailings are

¹⁵ Request, at 12-13.

generated. Fifty million dollars of revenue, spread over a year and across many facilities and mailers, does not allow the isolation of EDDM-R from all the other saturation/high density products so that its costs and operational impacts can be tracked.

NNA also asked a series of questions related to other potential costs incurred by the Postal Service for EDDM-R. These questions were related to whether the costs for advertising, marketing, and replacement workers were attributed to EDDM-R specifically and how. The PR also asks for the Postal Service's actual advertising costs for EDDM-R for FY12. The PR explains that the Postal Service reports contribution of "approximately \$20.2 million," without reference to a fiscal year and it does not appear that the reported contribution includes advertising expenditures incurred during FY 2011, or FY 2012 as of June 29, 2012.¹⁶ NNA suggests that the Postal Service does not adequately explain how it calculated the cost of advertising attributable to EDDM-R, what the other channels are bearing the remaining costs, and why they deserve a portion of the cost.¹⁷ The PR argues that the \$20.2 million contribution estimated by the Postal Service in its Request should be reduced by the actual advertising expenditures for EDDM-R.

In its Request, the Postal Service provided its anticipated advertising costs for FY12 because the year was not complete. But, it can also provide actual advertising costs so far this year. As of June 29 (when it reported revenue in its Request, Attachment B, at 6), the Postal Service has spent about \$5.1 million on advertising for EDDM-R during FY 2012, well below the anticipated \$20.2 million contribution estimate

¹⁶PR's Comments, at 6.

¹⁷NNA Comments, at 12.

for EDDM-R reported in the Request, Attachment B, at 3. Only about \$150,000 of additional advertising expenditures are anticipated from June 29 to the end of the fiscal year.

EDDM-R Has Increased Competition in the Marketplace, But Not Harmed It.

EDDM-R has increased competition within the marketplace by creating a simple way for businesses, large and small, to send direct mail, but there has not been any evidence to demonstrate that it has unreasonably harmed the marketplace. The Postal Service does not deny that some businesses may have been impacted by the product, but that is a normal consequence when any new product enters a competitive marketplace. EDDM-R has resulted in many new business users, incremental volume and revenue from less frequent small-volume mailers, and a less restrictive mailing option for all businesses to compete with alternative marketing channels.

NNA states that the Postal Service should have a significantly higher burden of proof to demonstrate that EDDM-R has not created unfair competition, particularly against smaller business in the advertising and mail service provider sectors.¹⁸ NNA argues that the Postal Service seeks to harm newspapers through the loss of volume to EDDM-R and, as a direct result, would negatively impact the Postal Service's expected revenue, if it loses their business. It also alleges that the Postal Service has used EDDM-R to discriminate against other mailers by putting itself into a direct advertising sales position with more favorable conditions than it does for other mail products.¹⁹ The Postal Service understands that advertising revenue makes up the majority of funding for newspapers or MSPs. However, the Postal Service also believes the distribution of

¹⁸ NNA Comments, at 1-2.

¹⁹ *Id.* at 1-2.

mail to all citizens is a vital service, which can only continue by making useful postal services available to customers. In the Postal Service's view, EDDM-R is an appropriate way to meet the needs of its current and potential customers.

EDDM-R would not establish an unfair competitive advantage for the Postal Service or related entities. 39 U.S.C. § 404a does not extend to pricing changes, such as the elimination of certain fees for EDDM-R mailers, or their effect on "competition" between different sets of mailers. Further, EDDM-R is available to any mailer who decides to use a flat-shaped product to reach all available deliveries in one or more carrier routes. Small and medium-sized businesses may be the most logical beneficiaries of this product; however, any mailer, regardless of size or business type, who meets the basic eligibility requirements, may use this service. In fact, mail service providers and newspapers have used the product, even though they have been some of the most vocal opponents to the introduction of this product.²⁰ MSPs and newspapers can market this product to the same customers the Postal Service might target, and also offer this product to its existing customers. Any cost saving that the Postal Service could pass on to small and medium-sized businesses are available to the MSP and newspaper for their customers. Moreover, in some respects, EDDM-R is more restricted than other mail products. Traditional mailers with permits have many options for when, where, and how they mail, as well as the weights, formats, quantities, and prices they pay. EDDM-R mailers are limited in the shape, weight, location, volume, and frequency of each mailing.

²⁰*Id.* at 3-5.

The Postal Service recognizes that any entity which provides for the distribution of advertising mail might be sensitive to the impact that EDDM-R could have on its own business. But this is not new competition. It is a just another medium for businesses to have access to the Postal Service for their direct mail needs, without the barriers which tend to complicate the process for mailers unsophisticated in postal regulations and preparation requirements. By attracting new customers to using the mail, EDDM-R could actually help newspapers and MSPs by creating a new source of customers. EDDM-R provides MSPs and newspapers with additional print and mailing volumes. Moreover, it also offers them an opportunity to direct these new customers into more robust targeted and data-driven direct mail programs and services once the new customers have tried the mail with successful results.

There is also no evidence to support the notion that creating and mailing an EDDM-R advertising piece, including design and printing, is significantly less expensive than currently available advertising options. In fact, EDDM-R is substantially more expensive than the cost for an insert in a shared mail program. Thus, insinuating that EDDM-R would cause the demise of newspapers or mail service providers is unsubstantiated. The decline of these types of businesses, including the Postal Service, can more likely be attributed to the diversion to electronic media than injecting one additional channel of delivery of hard copy advertisements into the marketplace.

CONCLUSION

The Postal Service is completing a successful market test of EDDM-R, and believes that an MCS product should now be established.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.

Chief Counsel, Pricing and Product Support

Brandy A. Osimokun

David H. Rubin

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2986, Fax -6187
August 6, 2012